MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BAC4644 ADVANCED TAXATION

(All Sections / Groups)

12 JULY 2023
9.00 a.m. –12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 8 printed pages excluding cover page with 5 questions only.

2. Attempt **ALL** questions. Marks are shown at the end of each question.

3. Answer in the answer booklet provided.

QUESTION 1

Part A

Hafis Trust is a trust body created by Hafis and his wife, Melati was named as the trustee. On 1st March 2022, he passed away leaving the wife and two children. Under the will, the trust was created to continue and manage the family's business and other investments. The details of the business and investment income for the year ended 31st December 2022 are as follows:

	RM
Business income	
Gross income	450,000
Allowable expenses	101,000
Capital allowance brought forward	20,000
Capital allowance current year	90,000
Other income:	
Interest income	12,000
Dividend income (Foreign source)	32,000
Rental income	20,000

Under the terms of the will, Melati is entitled to an annuity of RM52,000 per year. Furthermore, the will specifically provides the beneficiaries entitlements as follow:

Melati – ¼ of the total income.
First child – ½ of the total income.
Second child – 1/4 of the total income at the discretion of the trustee.

During the year, the trust paid a cash donation of RM10,500 to an approved charitable institution. Based on the trust distributable income, the trustee made the following payments to the beneficiaries for the year ended 31st December 2022: a sum of RM 50,000 to the wife, RM90,000 to the first child and RM30,000 to the second child.

Required:

a) Compute the chargeable income of Hafis Trust for the year of assessment 2022 assuming that Section 61(2) of the Income Tax Act 1967 (as amended) was applied. *Section 61(2) - DG allows the beneficiary's share of income as a deduction from the trust total income to arrive at the chargeable income.* Show all workings.

(8 marks)

b) Compute the statutory income received by all beneficiaries that are subject to tax for the year of assessment 2022.

(3 marks)

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Part B

Ascertain, with reasons and relevant sections, as to whom will be assessable on the income arising from the following transferred assets for the year of assessment 2022:

a) In October 2022, Suhaimi transferred ownership of a bungalow to his cousin, Razak as a gift. The intention from the settlement is to finance Razak's education at University of Cambridge United Kingdom using the rental income generated from the property. Razak would attain the age of 21 on 1st January 2023.

b) On 1st August 2022, Lucy created an agreement by transferring all of her income producing properties to her son, Aron since she was suffering with cancer. The term of the settlement is required Aron to graduate with a master's in 2024. If Aron fails to graduate, the settlement would be revoked and the properties would revert back to her. Aron was born in 2002 and unmarried.

c) Ravi, 28 years old and unmarried received an apartment along with a rental income derived from the property from his father, Mahendran in June 2022. Currently, he pursued postgraduate degree (Doctor of Philosophy) in Ireland. Therefore, Mahendran is to manage the asset on behalf of his son and has the right to make use of the income derived from the asset for his own personal purposes.

(9 marks)

[Total = 20 marks]

QUESTION 2

Part A

Southern Flying Club (SFC) is based at Senai Airport, Johor. The SFC was established to promote the sport of flying, the advancement of piloting and technical skills and to help its members to obtain Private Pilot Licence through training and courses. Furthermore, the club actively conducted seminars with the non-flying community to share experience of flight and sport aviation.

The club has the following income and expenditure account for the year ended 31st December 2022:

Income	**RM**	**RM**
Members' subscription fees	180,000	
Members' entrance fees	92,000	
Seminar fees for non-members	90,000	
Interest from fixed deposits	300,000	662,000

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Less: Expenditure		
Salaries and wages	250,000	
Administration and stationery	15,000	
Rental of hall for seminar	7,200	
Depreciation of plant	80,000	
Transportation for workers	15,000	
Approved donation	20,000	387,200
Surplus of income over expenditure		**274,800**

Notes:

Capital allowance for the year of assessment 2022 is RM21,000.

Required:

Calculate the income tax payable of Southern Flying Club (SFC) for the year of assessment 2022. Round all figures to the nearest RM.

(10 marks)

Part B

HomeDeco Sdn. Bhd. is a manufacturer of furniture which registered under the Sales Tax Act 2018. The company imported woods from Indonesia and incurred the following expenditure during the production of 200 units of TV cabinets:

Particular	**RM**
Imported woods	70,000
Import duty	7,000
Labor cost	15,000
Manufacturing cost	20,000
Overhead cost	10,000
Selling and marketing cost	2,000

On 2nd March 2022, the company received an order from Ellie Furniture Sdn. Bhd. to purchase 50 units of TV cabinets. On 4th March 2022, the company issued an invoice at 20% mark-up on the total costs and delivered the order on the same day. The company received payment on 7th March 2022.

On 2nd August 2022, 10 units of TV cabinets were donated to 5 approved charitable institutions with a total cost of RM6,200. The market price of the cabinet is RM744 per unit.

Continue...

Required:

a) Compute the sale value and the sales tax payable on HomeDeco Sdn. Bhd.'s sale to Ellie Furniture Sdn. Bhd. Assume the sales tax rate is 10%.

(6 marks)

b) Ascertain the taxable period and by when HomeDeco Sdn. Bhd. should remit the sales tax to the Royal Malaysian Customs Department.

(2 marks)

c) Explain to HomeDeco Sdn. Bhd. on the sales tax implication of the 10 units of TV cabinets which are donated to the approve charitable institutions.

(2 marks)

[Total: 20 marks]

QUESTION 3

Maxwell Sdn. Bhd. ('the company') is a resident investment holding company which makes up its accounts on 31st December annually. Currently, the company is in the midst of making preparation for listing on the Bursa Malaysia in year 2023. The company's statement of profit or loss for the year ended 31st December 2022 is as follows:

Particular	**RM**	**RM**
Income:		
Dividend (foreign sources)	350,000	
Interest on fixed deposit (local bank)	145,000	
Distribution of income from unit trust	275,000	
Gains from realisation of investments	710,000	
Commission Fee	32,000	
Management service fees	40,000	
Rental (Note 1)	320,000	1,872,000
Expenses:		
Director's fees	195,000	
Staff salaries, wages and allowance	420,000	
Loan interest (Note 2)	68,000	
Audit, accounting and secretarial fees	31,000	
Repairs and maintenance for rented properties (Note 3)	71,000	
Quit rent and assessment for rented properties (Note 3)	7,000	
Telephone charges, printing and stationery costs	25,000	
Depreciation	192,000	1,009,000
Net profit		**863,000**

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Notes:

1. The company owns a factory building in Melaka and a few commercial buildings in Johor. The company received RM130,000 rental income from the commercial buildings which provide maintenance and support service to the tenants. However, the company did not provide the same services for the factory building.

2. Loan interest was incurred on loan for the acquisition of the commercial buildings.

3. The company declared 1/3 of the expenses were incurred for the commercial buildings.

Required:

a) Determine whether Maxwell Sdn. Bhd. is an investment holding company under Section 60F of the Income Tax Act 1967.

(4 mark)

b) Based on the information provided, compute the chargeable income and tax payable for Maxwell Sdn. Bhd. for the YA 2022. Assume that the income tax rate is 24%.

Note: Show all workings especially the fraction of permitted expenses. Round up all figures.
(16 marks)

[20 marks]

QUESTION 4

Axis-Y REIT ('the company') is an approved real estate investment trust under the Securities Commission, Malaysia. The company commenced operation on 1st January 2017 and prepares its account to 31st December annually. The company invests in several properties and receives special tax treatment with effect from the year of assessment 2020. The company statement of income and expenditure for the year ended 31st December 2022 is as follows:

Particular	**RM**	**RM**
Income:		
Gross dividend income-single tier	42,000	
Gross dividend income-exempt	20,000	
Gross rental income	845,000	
Debenture income	6,000	
Gains from realisation of Securities	31,000	944,000

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Expenses:		
Manager's remuneration	18,000	
Management fees on maintenance of building	38,000	
Interest expense on loan to acquire real estate	82,000	
Interest expense on loan to acquire shares	8,200	
Depreciation	62,000	
Selling and Marketing expenses	42,000	
Donation to approved charitable institutions	13,000	
Audit, accounting, secretarial and tax expenses	7,000	
Salaries and allowances	410,000	
Other expenses (allowable)	31,000	711,200
Net profit		**232,800**

Additional Information:

Capital allowance for the year of assessment 2022 is RM43,700. On 20th April 2022, Axis-Y REIT distributed 75% of its total income to unit holders by virtue of S61A (1) of whom 30% are non-resident companies and the rest are Malaysian companies and resident individuals.

Required:

a) Compute the income tax payable of Axis-Y REIT for the YA 2022.

(18 marks)

b) Advise Axis-Y REIT pertaining to the deduction of withholding tax (pursuant to section 109D of the Income Tax Act 1967) assuming that the unit holders are non-resident individuals.

(2 marks)

[Total = 20 marks]

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QUESTION 5

TopPower Sdn. Bhd. ('the company') is a resident semiconductor company in Malaysia since 2003. The company activities include manufacturing, designing, testing and selling analog and embedded processing chips. Currently, the company has RM2.1 million paid-up capital and makes up its accounts to 30th June for every year.

Due to the high demand for the company's products, the management of the company has considered acquiring additional Wafer Edge Grinding Machine (heavy), which amounted to RM355,400. Currently, the company has three (3) option:

Option 1- Acquisition by cash
The company will acquire the machine using the cash available. RM250,000 is to be paid for the first year and the remaining amount is to be settled in the third year.

Option 2 - Acquisition through hire purchase
Based on information provided by the bank, the company is required to provide a deposit of RM35,000 and an installment payment of RM7,500 for 48 installments starting from 1st February 2022.

Option 3 - Acquisition through leasing
The company is required to pay RM9,000 per month for 4 years.

The company is considering the best option in order to minimize the company tax liability.

Required:

a) Calculate and compare the tax deductions that will be available to TopPower Sdn. Bhd. for the first four years through all three (3) options above.

(16 marks)

b) From calculation performed in (a), which option seem to be the best option? Justify.

(4 marks)

[Total = 20 marks]

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APPENDIX

The following tax rates, allowances and values are to be used in answering the questions.

1. Income tax rates for resident individuals for the Year of Assessment (YA) 2022 onwards.

Chargeable Income	Calculations (RM)	Rate %	Tax (RM)
0 - 5,000	On the First 5,000	0	0
5,001 - 20,000	On the First 5,000		0
	Next 15,000	1	150
20,001 - 35,000	On the First 20,000		150
	Next 15,000	3	450
35,001 - 50,000	On the First 35,000		600
	Next 15,000	8	1,200
50,001 - 70,000	On the First 50,000		1,800
	Next 20,000	13	2,600
70,001 - 100,000	On the First 70,000		4,400
	Next 30,000	21	6,300
100,001 - 250,000	On the First 100,000		10,700
	Next 150,000	24	36,000
250,001 - 400,000	On the First 250,000		46,700
	Next 150,000	24.5	36,750
400,001 - 600,000	On the First 400,000		83,450
	Next 200,000	25	50,000
600,001 - 1,000,000	On the First 600,000		133,450
	Next 400,000	26	104,000
1,000,001 - 2,000,000	On the First 1,000,000		237,450
	Next 1,000,000	28	280,000
Exceeding 2,000,000	On the First 2,000,000		517,450
	Next ringgit	30	.....

2. Capital and industrial building allowances

Type of assets	Initial allowance rate (%)	Annual allowance rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings, others	20	10
Industrial building	10	3

End of question.